



**CITY MANAGER'S OFFICE**

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**DATE: May 18, 2005**

**TO: City Council**

**SUBJECT: Fiscal Year 2005/06 Budget**

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**Dear Mayor and Members of the City Council:**

I am pleased to submit the Adopted Operating and CIP Budget for Fiscal Year 2005/06. The budget is a plan to address community needs within fiscal constraints. Again this year, General Fund revenues are insufficient to sustain prior levels of spending. In accordance with the City Council's adopted multi-year Sustainable Budget Strategy, it will be necessary to use reserves. The Budget reflects the City Council's commitment to fiscal responsibility through long term financial planning, cost effective municipal services, and financial policies that recognize the need to fund future obligations.

The City Council previously adopted the Sustainable Budget Strategy which required General Fund expenditure reductions of \$800,000 in 2004/05 and \$400,000 in 2005/06 and projected \$1.2 million per year in new revenues that were to be identified. The adopted 2004/05 budget actually included \$900,000 in expenditure reductions. By taking these steps, it was projected that revenues would be brought into line with expenditures by June 30, 2008, so that deficit spending would disappear.

However, at the 2005 Goal Setting Retreat, the City Council directed staff to stay on the path of balancing the budget by 2007/08 and take measures to reduce costs in 2005/06, but to avoid adverse impacts on employees, including layoffs. Therefore, expenditure cuts have been spread throughout the proposed General Fund budget, but they do not total the original \$400,000. In addition, the City Council adjusted the General Fund reserve requirement in January 2004 to allow fund balance to be drawn down over the next several years while steps are taken to balance revenues and expenditures. The reserve requirement is still at a very safe level equal to 25% of estimated annual revenues.

The Budget proposes additional funding for 1.75 positions in the General Fund for 2005/06, primarily associated with the opening of the new

Indoor Recreation Center in early 2006/07. Additional revenues were achieved in various funds through adjustments to Library development impact fees, various community development processing fees, water fees, and the proposed implementation of fire inspection fees, which is proposed in lieu of employee layoffs. The Budget proposes staffing and operational costs associated with the start-up of the new Indoor Recreational Center, which the City plans to open in September 2006. In summary, it was necessary to use approximately \$1.2 million from General Fund reserves in 2005/06.

**ECONOMIC AND DEMOGRAPHIC PROFILE**

The City of Morgan Hill provides a high quality residential community for our citizens balanced with a significant industrial and commercial base. Population increased by 2% as of January 1, 2005, to a level of 36,423.

The goal of "economic development" is to encourage both the growth of the local economy and its diversification. Morgan Hill is part of a regional economy. Morgan Hill businesses import raw materials and labor. They export goods and services throughout the region and the world. Morgan Hill residents are employed throughout the region. Morgan Hill retailers serve both city residents and others in the region. Therefore, it is difficult to identify economic indicators that apply strictly to Morgan Hill. Nonetheless, the following four indicators are important to City government because they drive the revenues needed to support City services, and reflect "the business climate" in our portion of the larger region.

**Retail sales:** As a whole, Morgan Hill based businesses have increased sales, achieving levels last seen in 2001. However, the composition of those transactions has changed, reflecting the opening of several new retail outlets as well as competition in nearby communities for "general retail." The sale of vehicles, gasoline and building materials have increased significantly.

# Budget Message (continued)

**Property valuation:** The property tax base has consistently grown over the years. In some years, the increase was attributable to significant new construction in industrial and commercial property. Most recently, the growth is attributable to the construction of new homes and resale of existing residential property.

**Jobs:** As measured by the self reporting of private sector businesses, there has been little increase in the number of employees over the past two years. The peak of employment was in 2001 at more than 15,000 jobs. In 2004, the number of private sector positions was a little less than 14,000 jobs.

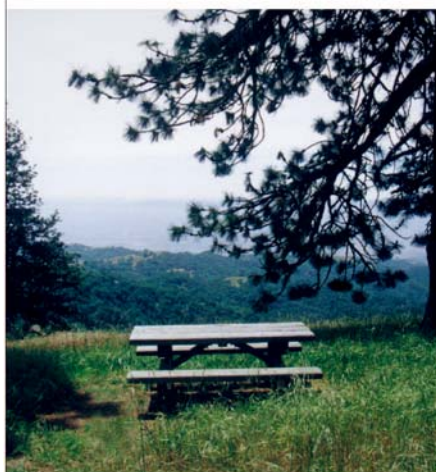
**Hotel Occupancy:** The hotels and motels of Morgan Hill are very dependent upon business travel. As measured by revenue from the Transient Occupancy Tax, they have not yet rebounded from the recession and impacts of 9/11.

The City provides a broad range of services, including police protection, development and housing, water and sanitation services, streets and parks construction, maintenance, planning, engineering, code enforcement, recreation, general city administration, and support services. The City has contracted with Santa Clara County to provide fire protection services and with South Valley Disposal and Recycling to provide solid waste collection services.

When the local economy slowed, the City's policy of establishing prudent reserves proved to be critical. The State of California is still struggling to confront a significant deficit. In response to the State's weak financial position and the significant past revenue shifts from local government to the State, the voters passed Proposition 1A in November 2004. This measure limited the State's

ability to take new monies away from local government by requiring that the State meet certain requirements prior to taking money from local government and by requiring that any money taken be paid back to local government. The deal also allowed the State to take money from local government in specified amounts in 2004/05 and 2005/06 only. For Morgan Hill, the State shifted, each year, \$343,000 in property taxes away from the General Fund and shifted \$2 million away from Redevelopment Agency property tax increment to the State's Educational Revenue Augmentation Fund. As of this date, the ultimate effect of current State budget negotiations was unknown, so it is still possible that the State could borrow additional monies from local government.

As projected for 2004/05, sales tax revenue has grown by approximately 28% from the prior year to a level of approximately \$5.2 million, or 5% less than the peak of \$5.5 million received in 2000/01, primarily due to new businesses and modest economic growth. For 2005/06, we are forecasting growth of approximately 5% to a new level of \$5.5 million. Transient occupancy tax revenue has increased by approximately



Comprised of more than 79,000 acres, Henry W. Coe State Park is the second largest state park in California and a popular spot for camping, backpacking, fishing, hiking, mountain biking, and horseback riding.



Morgan Hill provides the opportunity for year-round recreational activities including cycling, golfing and hot air ballooning.



Morgan Hill is expanding its community amenities to include a community center, aquatics center, library and recreational facilities.

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- Prepare Development Agreement for 66 acre Regional Shopping Center
- Pursue recovery of perchlorate treatment costs
- Develop South County Regional Fire Plan
- Facilitate “year long community conversation” on possible revenue measures
- Design Phase I of Outdoor Sports Complex
- Conduct banking services request for proposal process and select a bank for a new five year period
- Conduct cost allocation study
- Implement Police Department Reorganization Plan
- Complete a 2005 revision of the City Emergency Operations Plan
- Create Street Crimes Team
- Conduct an Industrial Land Market Analysis
- Conduct annexation of unincorporated urban island areas requested by the Local Agency Formation Commission
- Complete Historic Context Statement; Update Historical Inventory and Cultural Resources Preservation Ordinance
- Complete Architectural Review Handbook
- Implement and adopt the International Building Code and International Residential Code
- Develop a proactive Code Enforcement Business License Review Program
- Complete Urban Limit Line & Greenbelt Implementation General Plan Amendment
- Analyze Coyote Valley Specific Plan and EIR materials prepared by the City of San Jose
- Evaluate further benefits and costs of automating and centralizing irrigation management
- Establish a City-wide “map based” sidewalk and street repair maintenance log and priority list
- Complete installation of 16" Master Plan water main in Barrett Avenue
- Expand curbside recycling program
- Update the Urban Water Management Plan
- Identify location for and drill a new production well

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- In the light of the need to correct a significant structural budget deficit, the Council has directed us to focus on critical services first, and minimize adverse impacts for the community and employees. The guiding principle has been to maintain current staffing. An alternative of “maintain service levels” is not possible in light of continued community growth and the structural imbalance between costs and revenues.

An already “lean” organization has been challenged to deliver an ambitious work plan. We are proud of the accomplishments of the City’s employees and their continued commitment to public and customer service. Yet, the stress is beginning to show. Citizens express concern about delays in responding to certain less critical requests, and employees themselves express concern about adequate staffing. As we continue to “tighten our belts” we need to focus on the highest priorities.

The proposed year long community conversation is a critical part of the Sustainable Budget Strategy. The community and the Council need to “talk through” the implications of the Strategy. New revenues are needed just to preserve existing staffing levels. If the community wishes service level enhancements, an even greater level of new revenue will be necessary.

*For the proposed FY 05/06 Budget, the following specific steps were taken to keep the operating deficit to “only” \$1.2 million:*

- Eliminate City funding for community events.
- Reduce expenditures for employee events, training, travel, conferences, and advertising
- Continue the annual \$125,000 transfer from the Park Maintenance Fund to the General Fund
- Use approximately \$1.2 million in General Fund reserves in 2005/06
- Eliminate various contract services
- Increase the budgeted 2004/05 transfer from the General Fund to the Community Centers Fund by \$150,000 from \$50,000 to \$200,000, for start-up costs associated with the new Indoor Recreation Center

14



# Budget Message (continued)

*Following are steps that the City has taken in recent years to address the fiscal challenge:*

- Eliminated General Fund transfers to fund street repairs, affecting the quality of street maintenance
- Eliminated subsidy for summer recreation program
- Reduced front office hours at the Community and Cultural Center
- Eliminated after school program at Village Avante
- Eliminated various contract services and reduced special counsel services
- Shifted certain costs from the City to the Redevelopment Agency
- Invested in a comprehensive new Financial Software System to be more efficient and effective
- Eliminated one police officer position and other police support staff
- Stopped watering certain green areas of City parks
- Eliminated recycling calendar, solid waste audits & studies, and 6 issues of City Visions

*In addition, the City has not addressed the following needs because of limited funding:*

- Additional sworn police positions to enhance patrol, traffic enforcement, and investigative caseload
- Increased staffing on California Division of Forestry fire trucks
- A third fire station in Morgan Hill
- A third dedicated School Resource Officer for the Police Department



Located at the southern edge of Silicon Valley, Morgan Hill offers businesses a campus-like atmosphere surrounded by hills, lakes and parks.



The roster of Silicon Valley companies that call Morgan Hill home is impressive and diverse.

That list includes: Abbott Labs, Anritsu, Ericsson, Specialized Bicycles, Fox Racing, Sakata Seed and Media Arts to name a few.

- Non-implementation of the following development processing audit consultant recommendations:
  - Implement automated permitting and project tracking
  - Create a Building Maintenance Supervisor position
  - Acquire ability to integrate Geographic Information System with permitting system

## **HIGHLIGHTS - CHANGES IN BUDGET FORMAT**

- Activity related to the new Indoor Recreation Center has been added as new department #2125 within the General Fund

# Budget Message (continued)

## **FUND SUMMARIES**

### **GENERAL FUND**

#### ***Five Year Financial Plan Overview***

The City is faced with the budget challenge that the local economy is not generating sufficient revenue to sustain current services on an ongoing basis. The City's costs, especially for employee benefits, have increased significantly.

Because the City has prudently built up financial reserves over the previous decade, Morgan Hill is in a position to carefully manage a response to this challenge without resorting to dramatic service level reductions or immediately increasing taxes.

However, unless there are long-term structural changes to bring the budget into balance, the current level of spending on basic city services is not sustainable. Over the past three years, General Fund reserves have been used to balance the budget. In the current year alone, it will be necessary to use \$1.4 million in reserves even after previously implemented aggressive expenditure reductions.

After nearly a decade of steadily building reserves, the following series of critical adverse factors have caused us to begin consuming reserves at an unsustainable rate: the lingering economic slowdown, substantial cost increases (especially for employee retirement), and changes in the City's revenue base. Based on currently foreseeable trends over the next five years, if no action is taken, the General Fund reserves will fall below the City's reasonable 25% reserve target level to a level of 19% by June 2010.

The fiscal squeeze is real, and it must be addressed if the community's priorities for services and governance are to be met. The City Council is responsible for establishing policies that meet community needs and lead to balanced budgets; and it is the responsibility of City staff to implement such policies in a manner that achieves the desired results, builds confidence, and prepares for the future. Fulfilling these responsibilities requires a strategy that will lead to financial sustainability.

For the Budget Strategy to be sustainable, it must provide for a "balance" of revenue and expenditures, while simultaneously maintaining an appropriate level of reserves.

The City Council therefore adopted a policy in January 2004 that reduced the target level of reserves to 25% of the General Fund revenues and planned for the Budget to be balanced by 2007/08. That would allow for a gradual use of reserves while expenditures are reduced or revenues increased.

The two simultaneous budget targets allow for what we have called a "soft landing," but they do not eliminate the need for structural changes in the budget. For example, allowing a greater drawdown of reserves to 25% does not eliminate the need to modify the expenditure and revenue trends. Using a greater amount of reserves would allow the major decisions to be deferred or for structural changes to be implemented over a greater period of time, but the underlying problem is an imbalance between slow growing revenue and substantial cost increases.

The recommended Sustainable Budget Strategy adopted by the City Council in January 2004 calls for a combination of cuts and new revenues. The City did implement the first phase of this strategy by cutting \$900,000 in costs in 2004/05. Because it is not feasible for the City to cut much further without eliminating positions and because it is the direction of the City Council to not eliminate positions at this time, the focus on balancing the budget must be on raising new revenue. Revenue increases can come from economic activity greater than forecast or from new revenue sources. Because the City has realized revenue increases from existing revenue sources, it appears that the City does not need to cut costs further if the City can realize the \$1.2 million in annual revenue targeted in the strategy.

Consistent with the assumptions of the base forecast, raising \$1.2 million per year in new revenue, effective April 1, 2007, would result in the following revised forecast:

# Budget Message (continued)

## General Fund Forecast Recommended Sustainable Budget Strategy

	FY 05/06	FY 06/07	FY 07/08	FY 08/09	FY 09/10
Beginning Fund Balance	\$9.5	\$8.5	\$8.4	\$8.5	\$8.6
Add: Revenues	\$18.7	\$22.2	\$23.7	\$24.6	\$25.4
Less: Expenditures	(\$19.8)	(\$22.3)	(\$23.5)	(\$24.5)	(\$25.5)
<b>Ending Fund Balance</b>	<b>\$8.5</b>	<b>\$8.4</b>	<b>\$8.5</b>	<b>\$8.6</b>	<b>\$8.6</b>

\*Based on "GF Balance Projections with New Revenues". Dollars rounded in \$1,000,000.

As of June 30, 2007, the General Fund budget would be balanced because expenditures are projected to equal revenues in 2006/07 as shown above. This assumes that the City begins collecting a new revenue at the annual rate of \$1.2 million as of April 1, 2007. It also assumes that the State will repay the City \$630,000 in withheld Motor Vehicle In-Lieu Fees during 2006/07, as required by law. The schedule above projects that the General Fund would have a reserve of 39% at June 30, 2008, which would exceed the 25% reserve target.

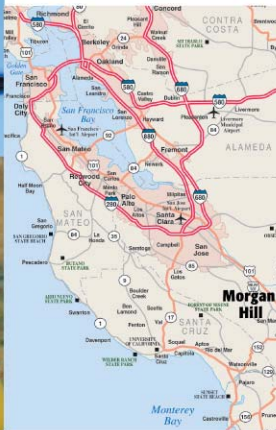
### FY 2004/05 Budget Overview

Available fund balance as of June 30, 2005, is now projected to be \$9,532,541, including \$4,288,000 in required reserves. This includes the effect of a \$1.4 million projected operating deficit for 2004/05. The 2004/05 budget originally anticipated a \$1.9 million operating deficit. This deficit was reduced primarily because projected sales taxes for 2004/05 will be \$600,000 higher than originally estimated.

### FY 2005/06 Budget Overview

The budget for 2005/06 estimates that total fund balance will further drop by another \$1.3 million to \$8,232,601 as of June 30, 2006. Revenues in 2005/06 for the General Fund, including transfers in, are estimated to be \$18,732,301. This represents a 7% increase over the previous year's

projected revenues, which is primarily related to higher sales taxes, higher property taxes, proposed new fire inspection fees, and \$226,000 in one-time revenues and transfers in. Sales taxes and property taxes are estimated to increase by 5%. It is also expected that proposed new fire fees would bring \$220,000 into the City's coffers next year. In general, the 2004/05 Budget estimates reflect a modest 3% growth for most General Fund revenues, as the local economy continues to recover.



Highway 101 runs directly through Morgan Hill and easily connects business centers throughout the Bay Area



Morgan Hill is just 30 minutes from San Jose International Airport, where new terminals, runways and roadways provide easy access and convenience to Silicon Valley travelers.

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The remainder of the General Fund accounts for General Government operations (City Council, City Clerk, City Manager, Finance, Human

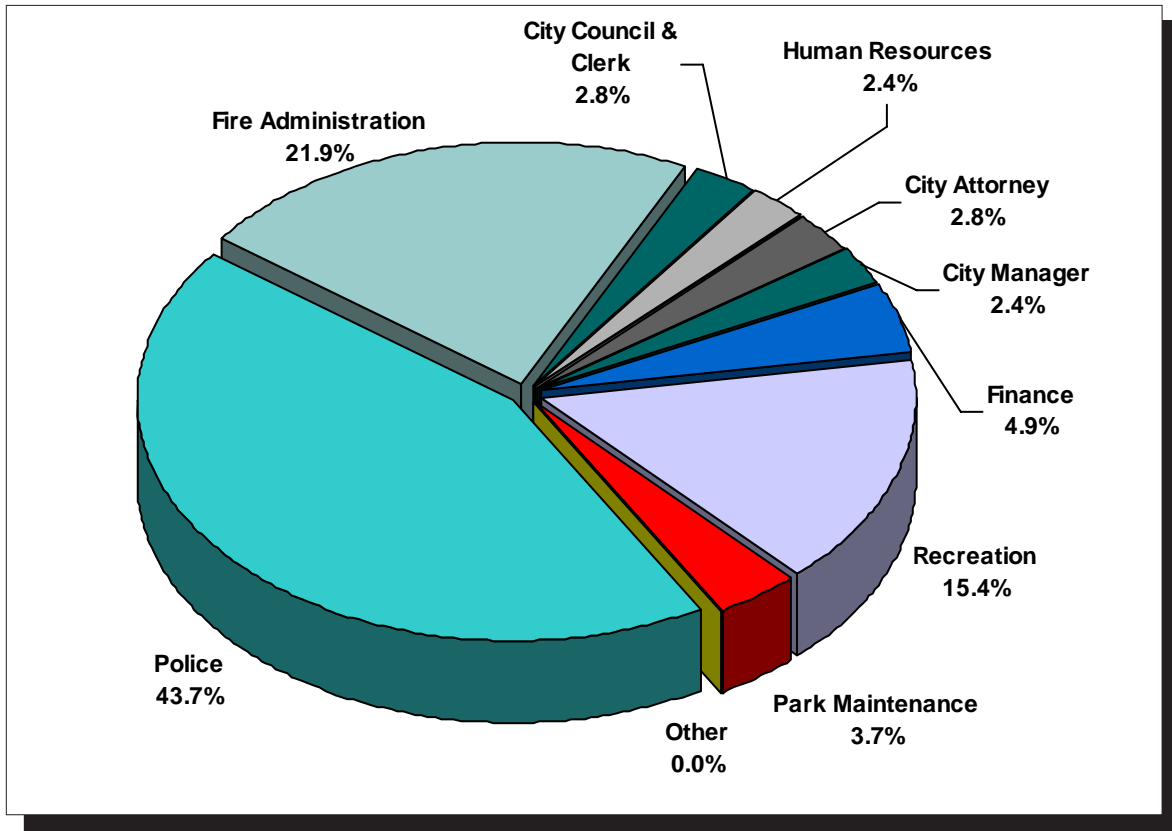
The chart displays the Operating Gain (Loss) in millions of dollars for each fiscal year from 96/97 to 05/06\*. The y-axis ranges from 2.0 down to (2.0). The x-axis lists the fiscal years. Bars above the zero line represent gains, while bars below represent losses. The years 04/05\* and 05/06\* are marked with an asterisk, indicating they are projected values.

Fiscal Year	Operating Gain (Loss) (\$ Millions)
96/97	0.55
97/98	1.50
98/99	1.80
99/00	1.10
00/01	1.75
01/02	0.55
02/03	(0.10)
03/04	(0.40)
04/05*	(1.40)
05/06*	(1.35)



# Budget Message (continued)

## FY 2005/06 General Fund Expenditures by Department



Resources, and City Attorney), Park Maintenance and Recreation Services. A significant portion of the administrative cost is recovered in the form of charges to other City departments for services performed. Operating costs for the Community & Cultural Center, Aquatics Center, and new Indoor Recreation Center are reflected in the General Fund, creating opportunities and commitments. It is anticipated these new ongoing financial commitments, high on the City Council's priorities, can be absorbed by the General Fund in the years to come. A schedule of revenues and expenditures for Recreation, including the Community and Cultural Center, Aquatics, and the Indoor Recreation Center, for the period 2002/03 through 2005/06, is included in the special analysis section. For the Indoor Recreation Center in 2005/06, the \$85,665 in proposed operating costs are to be financed with a transfer in the same amount from the Community Recreation Centers Start-up Fund.

The most significant sources of General Fund revenues for 2005/06 are:

- Sales Taxes of \$5,460,000, or 29% of total estimated revenues
- Property Taxes of \$4,533,070, or 24% of total estimated revenues
- Reimbursement for General Administration Overhead of \$1,791,375, or 10% of total estimated revenues
- Recreation and Aquatics Programs Revenue of \$1,540,900, or 8% of total estimated revenues
- Franchise Fees of \$1,030,700, or 6% of total estimated revenues
- Transient Occupancy Taxes of \$974,560, or 5% of total estimated revenues

# Budget Message (continued)

<b>General Fund Discretionary Support</b>					
Department	TOTAL COSTS	LESS DEPT REVENUES	LESS TRANSFER IN	NET COSTS	% OF TOTAL
City Council/City Clerk	\$ 554,468	\$ 473,605	-	\$ 80,863	0.54%
City Attorney	566,690	325,672	-	241,018	1.62%
City Manager/Comm & Marketing	477,740	215,144	-	262,596	1.77%
Recreation & Com Cultural Center	3,080,589	2,035,550	85,665	959,374	6.46%
Human Resources	488,604	311,878	-	176,726	1.19%
Finance	982,085	682,024	5,000	295,061	1.99%
Police	8,758,066	344,600	236,200	8,177,266	55.06%
Fire Administration	4,377,495	340,600	-	4,037,495	27.19%
Cable Television	37,611	-	-	37,611	0.25%
Park Maintenance	698,893	-	125,000	573,893	3.86%
Transfers Out	10,000	-	-	10,000	0.07%
<b>TOTALS</b>	<b>\$20,032,241</b>	<b>\$4,728,473</b>	<b>\$451,865</b>	<b>\$14,851,903</b>	<b>100.00%</b>
<b>FINANCED BY DISCRETIONARY REVENUES</b>				<b>\$14,851,903</b>	

The chart above shows how much of the 2005/06 General Fund budget is supported by discretionary general taxes and other revenues paid by residents and businesses. As shown, all General Fund costs not recovered through departmental revenues (fees, grants, and reimbursements) are fully financed by discretionary revenues.

As shown above, 74%, or \$14,851,903, of the \$19,958,241 General Fund budget is financed by discretionary revenues. In the prior year, the discretionary revenue budget equaled \$14,063,812, or 75% of total General Fund budgeted costs. Public safety accounts for \$11,505,347, or 83%, of total discretionary revenues.

## COMMUNITY DEVELOPMENT FUND

The Community Development Fund is a special revenue fund used to account for services supporting private development activity. The fund is dependent upon the collection of planning, building, and engineering development fees to finance these costs. This year appropriations are \$3,493,561, which represents an 8% increase over the original prior year budget. Revenues in 2005/06 are estimated to be \$3,023,420, or 10% more than prior year

budgeted revenues. Proposed revenues for 2005/06 reflect increases in community development fees, previously approved by the City Council, that will be effective July 5, 2005, but do not yet reflect full cost recovery, as calculated by the City's consultant. The City Council has also approved additional planning and engineering fee increases, which will provide for full cost recovery, that will be effective on July 1, 2006.

The General Plan Update Fund continues to provide the resources for the General Plan Update. The General Plan Update effort is critical for the City as it provides the basic policy blueprint on growth, development, and services. The costs associated with this activity are partially financed through a 5% surcharge on all building and planning permit fees.

## STREET MAINTENANCE FUND

The Street Maintenance Fund is a special revenue fund used exclusively for street maintenance and traffic safety activities. Included are maintenance and repair of all roadways, streets, curbs, gutters, medians, roadway shoulders, and alleys; cleaning and repair of catch basins and storm drains; traffic engineering, safety studies and modifications, and related geographic information systems; street lighting and signal operations; and painting,

# Budget Message (continued)

marking, and striping. State gas tax funds that partially finance these activities are distributed based on population.

Revenues, including transfers in, are budgeted as \$4,971,600, including \$699,600 of Gas Tax funds, \$100,000 in transfers from the Environmental Programs Fund, \$3,352,000 in project grant funds, \$600,000 in transfers from utility funds, and \$40,000 in other revenue. While the General Fund transferred amounts into the Street Maintenance Fund in years prior to 2003/04, no funds have been transferred from the General Fund since and no funds are proposed to be transferred from the General Fund in 2005/06, due to budgetary constraints.

## PARK MAINTENANCE FUND

When the City Council established this fund, the Council planned to use it as an “endowment” fund for park maintenance and to pay for repairs and upgrades to existing parks. The interest

received on the principal balance is to be appropriated strictly for maintenance of the City’s parks. Revenues come from double park fees and from previous one-time General Fund transfers of “excess” General Fund reserves. The interest revenue from this park maintenance “endowment” fund normally generates approximately \$100,000 per year in additional park maintenance funds that are used to pay for personnel in the Park Maintenance operation, so the City has historically budgeted a \$100,000 transfer to the General Fund each year. That amount was increased to \$125,000 for 2004/05. The budget proposes for 2005/06 that the \$125,000 transfer be continued to assist in financing park maintenance costs that are paid from the General Fund. The Park Maintenance Fund Balance is projected to be approximately \$3.8 million as of June 30, 2006. This fund over time may resolve park maintenance concerns of City policy makers and residents.

## SEWER AND WATER FUNDS

These are enterprise funds, where all costs incurred are covered by fees and charges paid by users of the systems. Presently, the City has approximately 12,000 accounts (including residential and business customers). The City water system meets or exceeds water quality standards. Budget details for these funds are found under the Public Works section of the budget document and are described as Water Operations and Sewer Operations. The 2005/06 Water Operations budget reflects a rate increase of 2% scheduled to occur on January 1, 2006, and also includes a 5% rate surcharge increase, resulting in a cumulative surcharge of 15%, scheduled to occur on



As a growing residential community, Morgan Hill offers affordable housing including apartments, condominiums and single family homes.



Morgan Hill employers are served by skilled job seekers from more than six community colleges and world-class universities such as San Jose State, Santa Clara and Stanford.



Serving a diverse community, Morgan Hill schools are recognized for their achievements in innovation, dynamic partnerships, exceptional programs and support services.

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Capital projects are described in detail within the CIP. Current year projects are included in the budget document under the applicable responsibility centers. Projects for 2005/06 include:

- Parks Land Purchase (\$1.8 million for acquisition)
- Regional Soccer Complex (\$1.0 million for construction)
- Sewer Plant Improvement Project (\$1.0 million for construction)
- Butterfield Detention Basin (\$1.9 million for site acquisition)
- Community Indoor Recreation Center (\$4.6 million for construction)
- Library (\$16.0 million for design and construction)
- Depot Street Reconstruction (\$3.0 million for construction)
- Utility Undergrounding – Depot Street (\$1.0 million for construction)
- Sewer Plant Improvement Project (\$1.8 million for construction)

Many of these projects are possible because of the referendum for the Plan Amendment to the 1981 Ojo de Agua Redevelopment Plan that was approved by the voters in November 1999. Of the total \$40.1 million in capital projects described in the CIP for 2005/06, \$22.7 million will be financed by the Redevelopment Agency.

## APPROPRIATIONS LIMIT

The City's appropriations limit for this budget cycle has been prepared in accordance with the uniform guidelines. The appropriations limit imposed by Propositions 4 and 111 creates a restriction on the amount of "proceeds of taxes" which can be appropriated by the City in any fiscal year. The limit is based on actual appropriations during the 1978/79 fiscal years, as increased each year using growth of population and inflation indexes. The limit of \$54,717,489 for 2005/06 is significantly greater than the actual appropriations of \$13,040,891 subject to the limit for this year. Therefore, it appears that the City will not exceed its appropriations limit in the foreseeable future.

- Parks and Recreation projects totaling \$4,256,000
- Public Facilities projects totaling \$20,761,000
- Sanitary Sewer projects totaling \$1,749,000
- Storm Drainage projects totaling \$3,040,000
- Streets projects totaling \$5,881,000
- Water projects totaling \$1,910,000



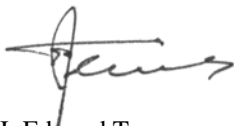
# Budget Message (continued)

## SUMMARY

While the City has substantial reserves and resources on hand, the City must be cautious because of current revenues (that are lower than 2000/01 revenues), future costs to operate new facilities, increased employee retirement costs, increasing employee costs, the demands of a growing community, and the continuing threat of State action to take away or borrow revenues. However, the City is in a position to accomplish completion of the major Visioning projects that the community desires. While recent growth in property tax and sales tax revenue has been welcome, minor increases in area employment suggest that the recovery will take a while. The strong reserves maintained by the City reflect the foresight of the City Council and community and will allow the City to manage costs in a strategic manner.

I wish to acknowledge my appreciation to the members of the City Council for your continued support of programs that deliver necessary public services and for your sound fiscal policy. I also wish to express my appreciation to the talented and dedicated City staff, including Budget Manager Chu Thai, for their assistance in the development of this budget.

Respectfully submitted,



J. Edward Tewes  
City Manager